

Annual report on Internal Audit Activity 2018-2019



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(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance'.

The standards define the way in which the Internal Audit Service should be established and undertakes its functions. The Council's Internal Audit Service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee. The standards also require that an independent and objective opinion is given on the overall adequacy and effectiveness of the control environment, comprising risk management, control and governance, from the work undertaken by the Internal Audit Service.

The Shared Service Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and challenge, advising the organisation that satisfactory arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the PSIAS is that the Chief Internal Auditor should provide an annual report to those charged with governance, to support the Annual Governance Statement. The content of the report is prescribed by the PSIAS which specifically requires Internal Audit to:

- Provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment and disclose any qualifications to that opinion, together with the reasons for the qualification;
- Compare the actual work undertaken with the planned work, and present a summary of the audit activity undertaken from which the opinion was derived, drawing attention to any issues of particular relevance;
- Summarise the performance of the Internal Audit function against its performance measures and targets; and
- Comment on compliance with the PSIAS.

When considering this report, the Committee may also wish to have regard to the quarterly interim Internal Audit progress reports presented to the Committee during 2018/19.

(4) Chief Internal Auditor's Opinion on the Council's Internal Control Environment

In providing my opinion it should be noted that assurance can never be absolute. The most that Internal Audit can provide is a reasonable assurance that there are no major weaknesses in risk management arrangements, control processes and governance. The matters raised in this report and our quarterly monitoring reports, are only those that were identified during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist or represent all of the improvements required.

Chief Internal Auditor's Opinion

I am satisfied that, based on the internal audit activity undertaken during 2018/19 and management's actions taken in response to that activity, enhanced by the work of other external review agencies, sufficient evidence is available to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of Stroud District Council's overall internal control environment.

In my opinion, for the 12 months ended 31 March 2019, Stroud District Council has, with the exception of the key governance matters identified in relation to the Local Government Association (LGA) Corporate Peer Challenge Review, a **satisfactory** overall control environment, to enable the achievement of the Council's outcomes and objectives.

This opinion will feed into the Annual Governance Statement which will be published alongside the Annual Statement of Accounts.

(4a) Scope of the Internal Audit Opinion

In arriving at my opinion, I have taken into account:

- The results of all internal audit activity undertaken during the year ended 31st March 2019 and whether our high and medium priority recommendations have been accepted by management and, if not, the consequent risk;
- The effects of any material changes in the organisation's risk profile, objectives or activities;
- Matters arising from internal audit quarterly progress reports or other assurance providers to the Audit and Standards Committee;
- Whether or not any limitations have been placed on the scope of internal audit activity; and
- Whether there have been any resource constraints imposed on internal audit which may have impacted on our ability to meet the full internal audit needs of the organisation.

(4b) Limitations to the scope of our activity

There have been no limitations to the scope of our activity or resource constraints imposed on internal audit which have impacted on our ability to meet the full internal audit needs of the Council. Whilst the core Internal Audit service is provided by ARA during 2018/19, the Chief Internal Auditor has:

- Commissioned external specialist ICT audit via Warwickshire County Council's Internal Audit Framework Agreement;
- Set up joint working arrangements in relation to Internal Audit and Risk Management with the Chief Internal Auditor at Warwickshire and Worcestershire County Council and Stratford District Council;
- Arrangements in place with Gloucestershire NHS Counter Fraud Service to provide support with investigations; and
- An agreement in place with Gloucestershire's Counter Fraud Unit to provide counter fraud support.

(5) Summary of Internal Audit Activity undertaken compared to that planned

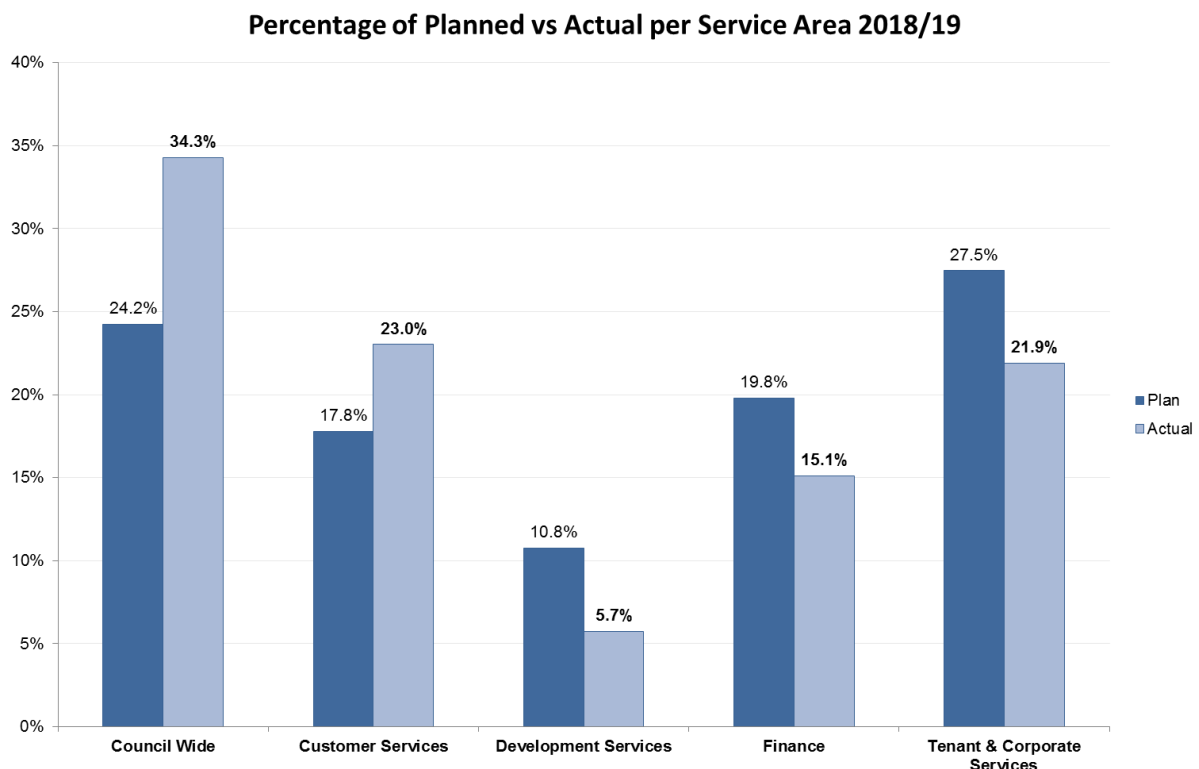
The underlying principle to the 2018/19 plan is risk and as such, audit resources were directed to areas which represented 'in year risk'.

Variations to the plan are required if the plan is to adequately reflect the ongoing changing risk profile of the Council.

Since the original risk based plan was approved in April 2018 by the Audit and Standards Committee, brought forward internal audits from 2017/18 have been delivered and reported (Procurement, Legacy Software and Homelessness), an additional activity has proved necessary, and some of the original planned audits have been deferred into the 2019/20 Internal Audit Plan (based on appropriate client request and to ensure the audit adds value). Plan changes are detailed in **Appendix 2** (the Summary Activity Progress Report 2018/19).

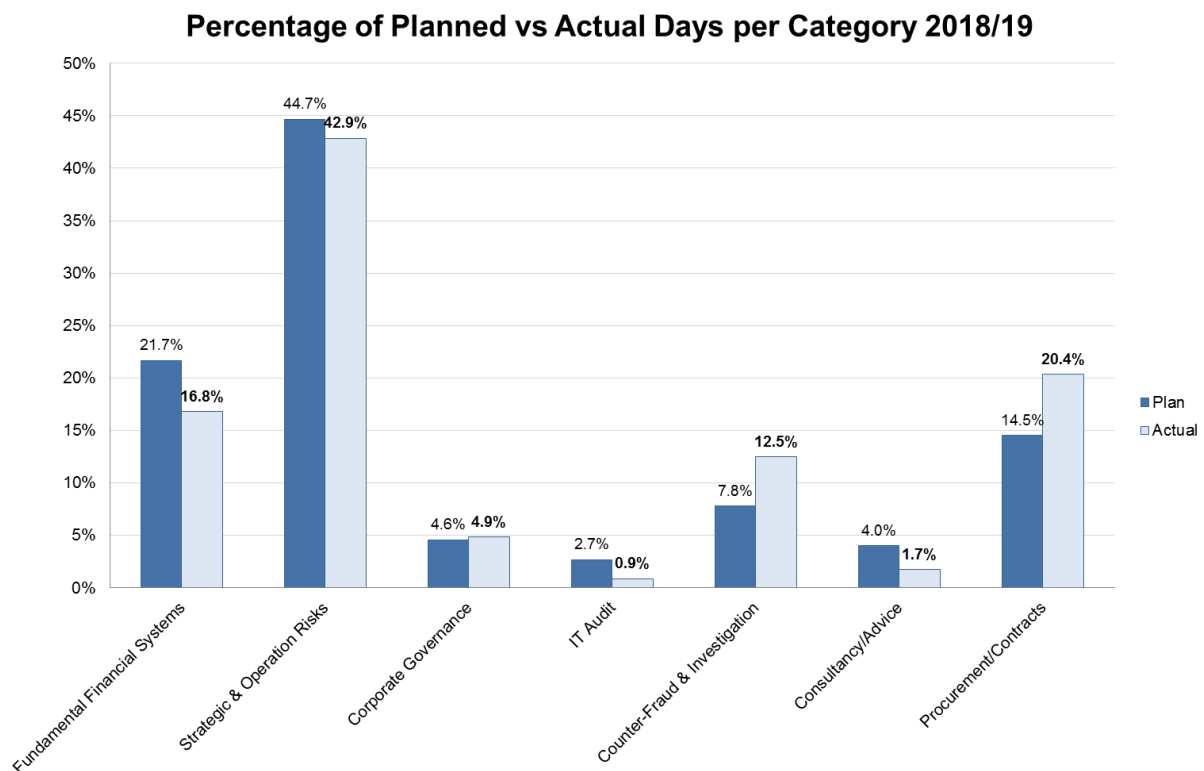
The net effect is that although the work undertaken was slightly different to that originally planned we are able to report that we achieved **94%** of the overall revised plan 2018/19, against a target of 85%.

The bar charts below summarise the percentages of planned audits per service area (i.e. Development Services, Finance, Tenant and Corporate Services, Customer Services, etc.) and category of activity (i.e. fundamental financial systems, corporate governance etc.) compared with the percentage of actual audits completed.



Example rationale for the variance between 2018/19 planned and actual days per service area include (but are not exclusive to):

- New activity requests e.g. Car Parking review;
- Updated risk assessments resulted in audit deferrals into the 2019/20 Plan (e.g. Workforce - Programme Management, Capital Programme Limited Assurance Follow Up, Business Rates Evaluation List, Competency Framework, HRA Delivery Plan - Budget Savings and ICT Action Plan); and
- Audit activity where actual days were in excess of those originally budgeted, due to the findings and outcomes of the audit work (e.g. Procurement and Homelessness); and
- The impact of potential fraud / irregularity referrals.



Example rationale for the variance between 2018/19 planned and actual days per category are in line with the rationale provided regards service area variances.

(6) Summary of Internal Audit Activity undertaken which informed our opinion

The schedule provided at **Attachment 1** within this report provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

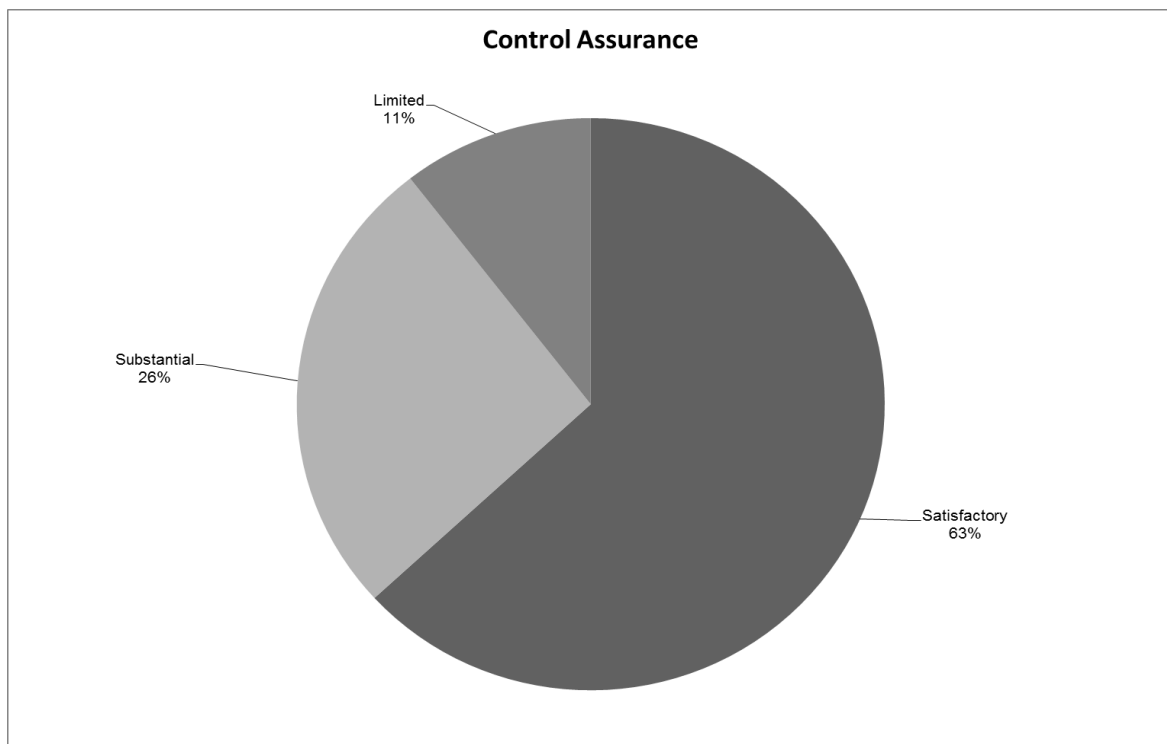
The schedule provided at **Appendix 2** contains a list of all of the audit activity undertaken during 2018/19, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown below.

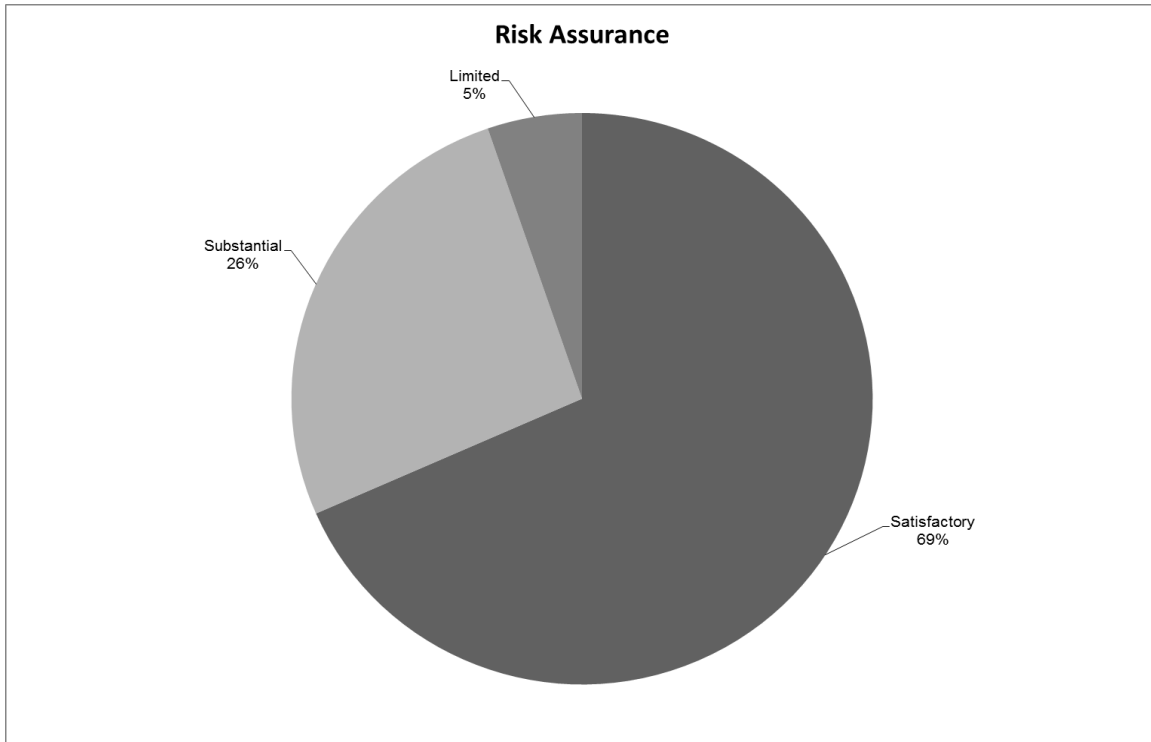
Assurance levels	Risk Identification Maturity	Control Environment
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Corporate Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Corporate Risk Management Strategy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurately and regularly reporting and monitoring of the key risks in line with the Corporate Risk Management Strategy, the service area has not demonstrated an adequate awareness of the risks relating to the area under review and the impact that these may have on service delivery, other services, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

(6a) Internal Audit Assurance Opinions on Risk and Control

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited. ARA can report that the Council is showing that **89%** of the activities reviewed have received a **substantial (26%)** or **satisfactory (63%)** opinion on control. Whilst **11%** of the opinions on control are limited, this may be related to transformational change, continued focusing of our activity on the key risks of the Council and specific requests from Directors, who are asking for areas to be reviewed where issues have arisen or where independent assurance is required.

Risk and Control Opinions 2018/19





(6b) Limited Control Assurance Opinions

Where audit activity records that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(6c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During 2018/19, two limited opinions on control were provided. These related to:

Audited Service Area	Date reported to Audit and Standards Committee
Legacy Software	9 th October 2018
Multi Services Contract Follow Up	9 th October 2018

(6d) Satisfactory Control Assurance Opinions

Where audit activity records that a satisfactory assurance opinion on control has been provided where recommendations have been made to reflect some improvements in control, the Audit and Standards Committee and Senior Leadership Team can take assurance that improvement actions have been agreed with management to address these.

(6e) Internal Audit recommendations made to enhance the control environment

Year	Total No. of high priority recs.	% of high priority recs. accepted by management	Total No. of medium priority recs.	% of medium priority recs. accepted by management	Total No. of recs. made
2017/18	33	*95%	63	100%	96
2018/19	11	100%	28	100%	39

*Two of the three recommendations made within the Post Project Review audit in 2017/18 were not accepted by management, as they were deemed to be within their risk appetite.

The Audit and Standards Committee and Senior Leadership Team can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(6f) Risk Assurance Opinions

There was one audit where a limited assurance opinion was given on risk during 2018/19 which related to:

Audited Service Area	Date reported to Audit and Standards Committee
Multi Services Contract Follow Up	9 th October 2018

Where limited assurance opinions on risk are provided, the relevant risk management lead officers within the Council are made aware, to ensure that the risks highlighted by Internal Audit are placed on the relevant risk registers.

The monitoring of the implementation of the recommendations is then owned by the relevant manager and helps to further embed risk management into the day to day management, risk monitoring and reporting processes.

(6g) Internal Audit's Review of Risk Management

During 2018/19, **95%** of the audited areas rated the effectiveness of risk management arrangements as **substantial (26%) or satisfactory (69%)** with **5%** obtaining a limited assurance opinion. This evidences that risk management continues to be further embedded into the Council's business activities.

The assurance statements obtained from all Directors and Service Managers across the Council (when formulating the Annual Governance Statement), provided reasonable assurance that management apply the Council's Risk Management Strategy and principles within their service areas.

(6h) Stroud District Council's Corporate Governance Arrangements

The Council is required by the Accounts and Audit Regulations 2015 to prepare and publish an Annual Governance Statement. The Annual Governance Statement is signed by the Leader, Chief Executive and the Chief Financial Officer and must accompany the Annual Statement of Accounts.

In April 2016, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authorities Chief Executives (SOLACE) published 'Delivering Good Governance in Local Government: Framework 2016' and this applies to annual governance statements prepared for the 2018/19 financial year. Guidance notes were also published to assist Council Leaders and Chief Executives in reviewing and testing their governance arrangements against the seven principles for good governance.

The key focus of the framework is on sustainability – economic, social and environmental and the need to focus on the longer term and the impact actions may have on future generations. Internal Audit therefore:

- Reviewed the existing governance arrangements against the principles set out in the Framework;
- Developed and implemented a refreshed local Code of Corporate Governance, based on the new principles and guidance, including an assurance framework for ensuring ongoing effectiveness; and

- Will report publically, via the Annual Governance Statement on compliance with the code on an annual basis, how the Council has monitored the effectiveness of the governance arrangements operating in the year and on planned improvement areas.

The key 2018/19 governance matters identified related to: Future Financial Stability, Local Government Association (LGA) Corporate Peer Challenge (CPC) and the Procurement Action Plan.

The actions to be taken to address the above can be found within the Council's Annual Governance Statement 2018/19 and their implementation monitored by the Audit and Standards Committee throughout the year.

(7) Summary of additional Internal Audit Activity

(7a) Special Investigations/Counter Fraud Activities

During 2018/19 (1st April 2018 to 31st March 2019) 25 potential irregularities were referred to Audit, Risk Assurance (ARA) (Internal Audit (IA)), all of which have been previously reported to Audit and Standards Committee. In addition, Gloucestershire Counter Fraud Unit (CFU), commissioned through ARA, continued to work on ten cases brought forward from 2017/18.

In respect of the new cases referred in 2018/19, ARA has commissioned the CFU to investigate potential irregularities in respect of housing, tenancy and council tax. All counter fraud activity undertaken by the CFU has been agreed with the relevant Service Managers, S151 Officer and overseen by the Chief Internal Auditor. Of the cases referred in 2018/19, 19 have now closed with varying outcomes:

Tenancy and Housing

7 new cases were referred to the CFU, via ARA in 2018/19 plus an additional 10 cases were carried forward from 2017/18.

- 3 cases referred by the Right to Buy (RTB) team to investigate/validate the RTB application;
- 3 cases referred by the tenancy team – subletting/abandonment or breach of tenancy conditions; and
- 1 case acting as the co-ordinator of evidence in respect of an investigation into the use of stolen credit cards reported to Action Fraud.

Of these, 13 cases were closed plus an additional four cases that had been identified during a RTB audit. These can be broken down as:

- 2 cases referred by the RTB team where it was proven that the tenant was not living in the property and the RTB was refused;
- 4 cases where there was no further action for the RTB team but issues were identified with council tax and/or housing benefits;
- 4 cases where the information or advice was provided to the Housing team to enable them to continue with any investigation as required;
- 6 cases closed due to insufficient evidence to progress the investigation; and
- 1 case of fraudulent use of credit cards closed by Gloucestershire Constabulary due to insufficient evidence.

Council Tax Reduction Scheme (CTRS)

There were 18 new CTRS investigations referred to the CFU, via ARA, during the year.

One case closed recently, which has not previously been reported to the Audit and Standards Committee, related to a Council Tax Support Scheme overpayment of £5,081.20 due to non declaration of income/savings. This resulted in a joint prosecution with the Department for Work and Pensions (DWP) and the Council.

The individual was given a 9 month custodial sentence in relation to each of the two offences (to run concurrently), each reduced to 6 months for the early guilty plea, and suspended for 18 months. The individual has been ordered to pay £1,044.12 (in addition to the £5,081.20 identified), comprising the Councils' full costs of £929.12 and a victim surcharge of £115.00. In awarding the Council's full costs the bench acknowledged the considerable amount of time and effort involved in investigating this case.

Two cases are currently being jointly investigated with the DWP in respect of undeclared work resulting in potential HB overpayments which is likely to result in sanctions being imposed, which cumulatively are in the region of £6k

Of the 18 new CTRS cases, the following 6 cases have been closed:

- 3 cases were rejected because they did not meet the criteria;
- 1 case resulted in the identification and recovery of £639.08 overpayment of Council Tax Support but there insufficient evidence to take the case further; and
- 2 cases were closed as the allegation could not be proved.

In respect of any outstanding investigations ARA continues to work with relevant officers within the Council and the CFU and the investigation outcomes will be provided to the Audit and Standards Committee once concluded.

The Council, through the CFU, is currently participating in a pilot exercise working with the Department for Work and Pensions (DWP) on joint investigations of housing benefits and CTRS.

In addition, the CFU has provided a number of fraud awareness training sessions to council staff on housing and tenancy fraud.

Any fraud alerts received by Internal Audit from the National Anti Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

Council Tax, Housing Benefit and Council Tax Support Penalty and Prosecution Policies

The Council is committed to the detection of fraud and has a responsibility to ensure that Housing Benefit and Council Tax Support are paid correctly (Council Tax Support is also referred to as the Council Tax Reduction Scheme or Local Council Tax Support Scheme). The current Penalty and prosecution policies were developed within 2017/18 and approved by the Strategy and Resources Committee on 12th April 2018. These policies set out the Council's approach to prosecution or sanctions in cases of fraud or misinformation in respect of Council Tax Support, Council Tax and Housing Benefit.

Fraud Risk Assessment / Risk Register

A fraud risk register is used to assist in the formation of the annual Internal Audit plan.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections were collected throughout October 2018 and generating reports containing data set matches for follow-up action. Examples of data sets includes housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

Monitoring and Review

The Audit and Standards Committee can also take assurance that all special investigations/counter fraud activities are reported to the Chief Executive, Monitoring Officer and Chief Financial Officer, who challenge, monitor management actions and follow-up progress to date and approve all police referrals.

Anti Fraud and Corruption Policy Statement and Strategy

Effective governance requires the Council to promote values for the authority and demonstrate the values of good governance through upholding high standards of conduct and behaviour. To enable this, the Fighting Fraud and Corruption Locally 2016–2019 Strategy has been developed by local authorities and counter fraud experts and supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.

The Chief Internal Auditor continues to undertake a self-assessment against the guidance to measure the Council's counter fraud and corruption culture and response and propose enhancements as required.

Serious and Organised Crime Strategic partnership led by Gloucestershire Police

The Chief Internal Auditor is a member of the Serious and Organised Crime Strategic Partnership (SOCSP) to discuss the local multi agency approach to tackling crime/fraud. There is a clear direction from central government that a 'whole government approach' is required, with the co-ordination of the Police, statutory partners and the community and voluntary sector. It is the intention that this partnership is to set the context of Serious and Organised Crime within Gloucestershire and then mobilise the network of local partners to work together with a strong emphasis on a preventative, early intervention approach.

(7b) Local Government Transparency Code 2015

Introduction

This Code is issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.

Detecting and preventing fraud (taken from Annex B of code)

Tackling fraud is an integral part of ensuring that tax-payers money is used to protect resources for frontline services. The cost of fraud to local government is estimated at £2.1 billion a year. This is money that can be better used to support the delivery of front line services and make savings for local tax payers.

A culture of transparency should strengthen counter-fraud controls. The Code makes it clear that fraud can thrive where decisions are not open to scrutiny and details of spending, contracts and service provision are hidden from view. Greater transparency, and the provisions in this Code, can help combat fraud.

Local authorities must annually publish the following information about their counter fraud work ¹ (as detailed for Stroud District Council) in the table below:

Council wide fraud and irregularity activity relating to 2018/19 including Internal Audit activity

Question	Stroud District Council Response
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.	3
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.	The Council has access to 1.6 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Gloucester City Council (ARA – Audit, Risk, Assurance), together with access to the CFU via ARA.

¹ (The definition of fraud is as set out by the Audit Commission in Protecting the Public Purse).

Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.	The Council has access to 1.6 FTE fraud investigators as part of the Internal Audit shared service arrangement with Gloucestershire County Council and Gloucester City Council (ARA) together with access to the CFU via ARA.
Total amount spent by the authority on the investigation and prosecution of fraud.	Approximately £12,415 in staff time from ARA/CFU. Staff employed by SDC unknown.
Total number of fraud cases investigated by ARA and the CFU. (<i>all cases are initially investigated as fraud</i>).	3 (plus 2 referred to DWP outcomes unknown).

In addition to the above, it is recommended that local authorities should go further than the minimum publication requirements set out above (as detailed for Stroud District Council) in the table below.

Question	Stroud District Council Response
Total number of cases of irregularity investigated. (This is not in addition to the fraud cases investigated)	30
Total number of occasions on which a) fraud and b) irregularity was identified.	(a) 3 (b) 30 + 2 referred to DWP, outcomes unknown.
Total monetary value of a) the fraud and b) the irregularity that was detected.	(a) Estimated £130,000 (RTB loss prevention) £5,081.20 from CTRS (b) £7,129.21 (Excludes ongoing cases where value is currently not known)

<p>Total monetary value of a) the fraud and b) the irregularity that was recovered</p>	<p>(a) Estimated £130,000 (includes value of discount saved from preventing a property being sold under the RTB scheme)</p> <p>£5,081.20 recovered in respect of CTRS.</p> <p>(b) £639 (Excludes ongoing cases where value is currently not known. As a local authority there is an obligation to refer our HB fraud allegations to DWP for their consideration as to whether an investigation should take place.)</p>
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Full details about the code and its requirements can be found at:

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>

(8) Internal Audit Effectiveness

The Accounts and Audit Regulations 2015 require '*a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'. This process is also part of the wider annual review of the effectiveness of the internal control system, and significantly contributes towards the overall controls assurance gathering processes and ultimately the publication of the Annual Governance Statement.

The Accounts and Audit Regulations 2015 also state that internal audit should conform to the Public Sector Internal Audit Standards (PSIAS) 2017.

Public Sector Internal Audit Standards (PSIAS)

These standards have four key objectives:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Internal Audit Charter and Code of Ethics reflect the requirements of the standards.

External Assessment of the effectiveness of Internal Audit

There is a requirement under the PSIAS i.e. Standard Ref '1312 External Assessments' for internal audit to have an external quality assessment which must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The standards require the Chief Internal Auditor to discuss the following with the Audit and Standards Committee:

- The form of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The review undertaken during May 2015 by the Chartered Institute of Internal Auditors (CIIA) included a review of the team's conformance to the International Professional Practice Framework (IPPF) as reflected in the PSIAS, benchmarking the function's activities against best practice and assessing the impact of internal audit on the organisation. There are 56 fundamental principles to achieve with more than 150 points of recommended practice in the IPPF. The independent assessment identified 100% conformance.

The Chartered Institute of Internal Auditors stated: *'It is our view that (the Council's) internal audit function conforms to all 56 principles. This is excellent performance given the breadth of the IPPF and the challenges facing the function'*.

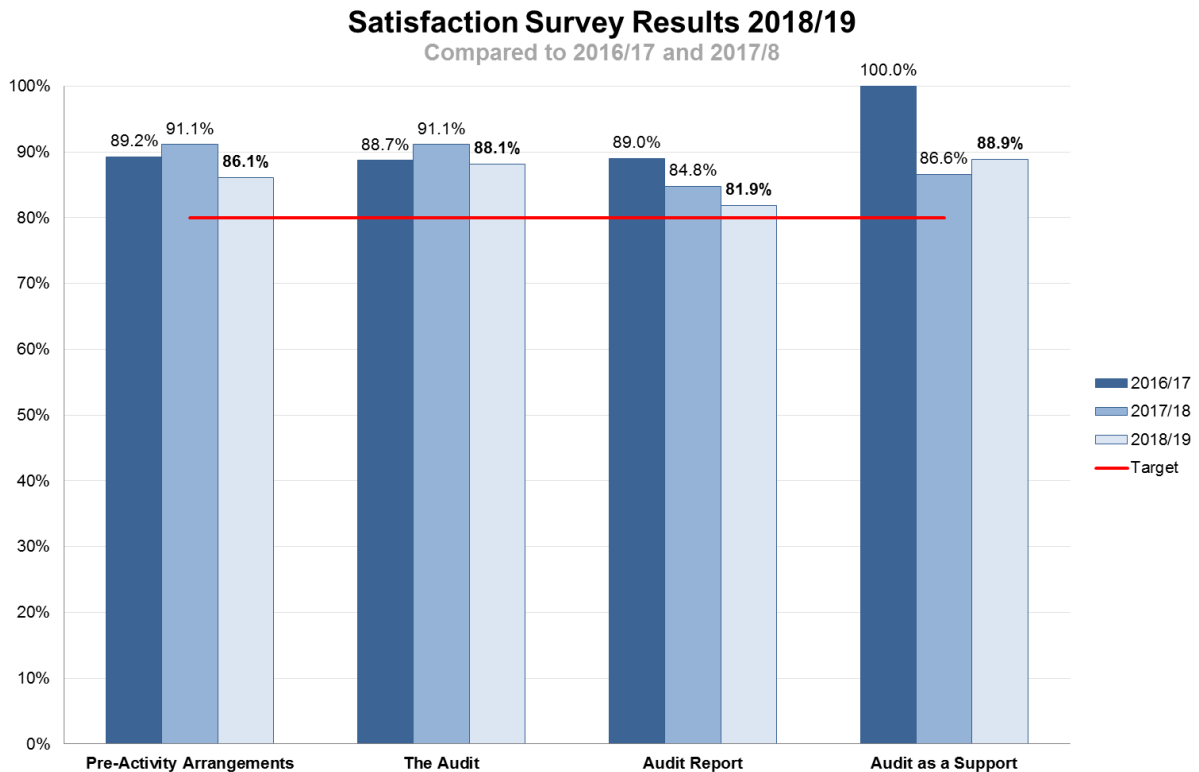
The internal audit shared service applies consistent systems and processes, which supports compliance across the Audit Risk Assurance Shared Service partners.

During 2018/19 the Chief Internal Auditor assessed Internal Audit's performance against the Internal Audit's Quality Assurance and Improvement Programme (QAIP) as required by the PSIAS. The QAIP confirmed compliance against the PSIAS and highlighted opportunities for further service improvement.

Internal Assessment - Customer Satisfaction Survey results 2018/19

At the close of each audit review a customer satisfaction questionnaire is sent out to the Strategic Head, Service Manager or nominated officer. The aim of the questionnaire is to gauge satisfaction of the service provided such as timeliness, quality and professionalism. Customers are asked to rate the service between excellent, good, fair and poor.

A target of 80% was set where overall, audit was assessed as good or better. The latest results as summarised below, shows that the target has been exceeded, with the score of **88.9%** reflecting Internal Audit as being a positive support to their service.



In addition, the following positive comments have been received from our customers:

- *'Feedback during the process, so that any issues identified could be addressed at source'.*
- *'I think the auditor was particularly good in recognising that circumstances had changed since the original audit report and that although previous recommendations were not being carried out the risks previously identified were still being addressed'.*
- *'The auditor actively worked with all parties and his recommendations and assistance were a positive contribution to the sub rooms transfer'.*
- *'We've adopted all the recommendations recommended and put in place processes to ensure accountability moving forward'.*

Lessons Learned from customer feedback and actions taken by Internal Audit

The Chief Internal Auditor reviews all client feedback survey forms and where a less than good rating has been provided by the client, a discussion is held with both the relevant auditor and the manager to establish the rationale behind the rating and where appropriate actions are agreed and taken to address any issues highlighted.

ARA Learning and Development

Development of leaders, managers and staff within ARA is a key priority, to ensure that the service has the qualities, behaviours and skills to deliver efficient and effective services to our partners and external clients.

The Chief Internal Auditor is a member of the Local Authorities Chief Auditor's Network, Midland Counties Chief Internal Auditor Network and the Midland District Chief Internal Auditors Group. ARA staff participate in CPD and / or are members of other relevant internal audit, counter fraud and risk related forums / groups, all of which provides the opportunities to discuss and understand the latest developments affecting the internal audit, counter fraud and risk management profession, contribute to strategy, exchange ideas and work collaboratively on problems and issues.

ARA is also committed to offering a structured trainee auditor programme, to attract people to the Council and to the profession, currently supporting three trainee auditor posts.

ARA Partner Dividend

During 2018/19 ARA has been in a position to be able to provide a dividend to the Council in the sum of £8,259.72. This is due to efficiencies achieved by the shared service during this period.

Internal Audit's relationship with the Audit and Standards Committee

The Chief Internal Auditor functionally reports to the Audit and Standards Committee and supports the Committee in fulfilling its role as an independent assurance provider.

The Chartered Institute of Public Finance and Accountancy, CIPFA, have recently produced revised guidance on the function and operation of audit committees; "Audit Committees in Local Authorities and Police, 2018 edition". The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK and replaces the Position Statement of Audit Committees in Local

Government issued in 2013. In the guidance, CIPFA provide a suggested self-assessment against recommended practice.

By reviewing the Committee's effectiveness against a good practice self-assessment on an annual basis, the Committee can demonstrate a high degree of performance and evidence that the Committee is soundly based with a knowledgeable membership that is not impaired in any way. Completion of the self-assessment can also be used to support the planning of the Committee's work programme and training plans and inform the Committee's annual report to Council.

Internal Audit led on a review of their effectiveness which enabled members of the Committee to undertake a self assessment against the good practice principles. An action plan has been developed which summarises the next steps to further enhance the Committees effectiveness.

Green Impact Award

Green Impact is a sustainability accreditation scheme with an awards element. Green Impact supports organisations in meeting the reduction in energy and fuel use, cost and resulting CO₂ emissions.

ARA achieved a bronze award in 2017 demonstrating and evidencing change across the team and its activities making improvements in managing waste and recycling, reduction of energy use, reduction in water usage including preventing water wastage, reusing before procuring new, alternative travel use and improving overall team health and well-being.

ARA was also identified by the scheme in 2017 by being awarded the Green Impact special award for its proactive approach in making positive changes to its processes to benefit the Council as a whole.

In 2018 ARA has further demonstrated its commitment in meeting this objective and received the gold award, the highest award within the scheme.

Completed Internal Audit Activity during the period April – June 2019

Summary of Satisfactory Assurance Opinions on Control

Service Area: Tenant and Corporate Services

Audit Activity: Property Maintenance

Background

There are various pieces of statutory legislation and building regulations which the Council should be compliant with, which the planned service and maintenance programme will target.

The Council's General Fund planned service, responsive, emergency and out of hours' maintenance budget for 2018/19 was £308k.

Scope

The audit reviewed whether the Council has adequate arrangements for undertaking planned and responsive maintenance works, in order to protect the value of its property and the health and wellbeing of employees and members of the public.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

- The systems and processes in place for administering property incident claims were found to be adequate and operating effectively.
- The service risk register only partially recognises and evaluates property maintenance risks, and does not consider the wider business environment compliance requirements with statutory legislation and building regulations.
- There is evidence to support that stock condition surveys for key strategic buildings have been undertaken in previous years. More recently, components of buildings such as plant have received independent specialist condition survey reports, with the objective of; i) tailoring in line with the revenue budget available; and ii) identifying any planned maintenance needs.

- Audit testing highlighted that procurement procedures for planned and responsive building property maintenance and repairs (below the £5,000 threshold) is not being undertaken in compliance with the Council's Contract Procurement Procedure Rules. As at March 2019 the annual total spend analysed by cost centre within this threshold is circa £45k, which represents 15% of the annual budget.
- The Buildings Programme Manager advised Internal Audit that there are time/resource limitations for arranging three quotations for every work item due to the volume of orders that are raised in year (typically 600 orders) and where it is impractical to obtain this number of contractor quotes relating to responsive repairs, procurement decisions were based on their judgement for value for money.
- It is acknowledged however that there is a need to develop the existing control environment by proactively developing a business case to identify/capture the Council's business needs/medium term procurement requirements (based on known future demand/need and historical data), and ensure that the future procurement of goods, works and services is in compliance with the council's procurement rules.
- There are adequate procedures in place to review and monitor contractor performance for planned service maintenance, and these are operating effectively.

Conclusion

The review has highlighted some lapses within the current control environment for managing planned and responsive maintenance for building properties.

Assurance was obtained to confirm that specific statutory legislation and building regulation inspection and maintenance requirements had been correctly completed.

Management Actions

Internal Audit has raised two high and one medium recommendation in order to improve the existing control environment in relation to risk management and future procurement activities.

Management has responded positively to the recommendations made.

Service Area: Council Wide

Audit Activity: General Data Protection Regulation (GDPR)

Background

The General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union (EU).

GDPR replaces the Data Protection Directive (officially Directive 95/46/EC) [2] of 1995. The regulation was adopted on 27th April 2016 and became enforceable from 25th May 2018 after a two-year transition period. Unlike a directive, it does not require national government to pass any enabling legislation and is thus directly binding and applicable.

Scope

The aim of this audit was to review whether the Council has an effective framework in place for ensuring that personal information gathered is only used for the purpose for which it was originally intended.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The review identified a number of areas of good practice applied by the Council, including:

- Key GDPR/data protection policies and procedures were found to have been updated to reference GDPR and describe how the Council meets key requirements;
- Staff and members have been made aware of GDPR requirements via a number of channels, including a series of training sessions, e-learning, communications issued by email, the Council intranet, posters, and an information sheet;
- A high level privacy notice and service specific privacy notices have been created and published to the Council website;

- Data Privacy Impact Assessment (DPIA) process has been introduced and the Council's Data Protection Policy has been updated to reflect this requirement; and
- A designated Data Protection Officer and 'Information Champions' with the responsibility of disseminating information on GDPR were noted to be in place.

The findings from this review have also identified some areas where improvement is required to ensure compliance with GDPR requirements. These are:

- The Council does not currently maintain a centrally held register or record of processing activities that details all of the Council's information assets;
- There is no centrally held Subject Access Request log to be used in the management of subject access requests;
- Not all contracts held by the Council are currently detailed on the Contracts Register;
- A log of data breaches is maintained, however this only currently includes incidents reported to the Information Commissioner Office, and not all incidents raised/investigated;
- There is a need to gain further assurance that all departments/service areas are capturing and recording data subjects consent to retain and process their data; and
- It is recommended that management consider the appointment/nomination of a dedicated information officer to help ensure compliance with GDPR.

Conclusion

Based on the results of audit enquiries and testing it is evident that a significant amount of work has been undertaken to achieve compliance with GDPR requirements.

Management were able to demonstrate a good level of knowledge and awareness of their obligations under GDPR and that a number of controls have been implemented to move the Council towards full compliance with GDPR. The audit recommendations raised will help further improve the overall control environment once implemented.

Management Actions

Management have positively responded to the six medium priority recommendations made within the report. The latest recommendation implementation deadline agreed by management is 30th September 2019.

Summary of Substantial Assurance Opinions on Control

Service Area: Customer Services

Audit Activity: Subscription Rooms Risk Management-Financial Closedown

Background

The Subscription Rooms is a Grade II listed building in the centre of Stroud. It is used as an arts and entertainment venue, and has been owned and run by the Council for a number of years.

The freehold of the Subscription Rooms was transferred to Stroud Town Council for £1 as approved on 17th January 2019 by the Strategy and Resources Committee. The Stroud Subscription Rooms Trust will run the venue's day-to-day business. The Subscription Rooms transfer took place on 28th March 2019.

Scope

This audit scope was to determine whether there are effective risk management arrangements in place for the change in ownership, in particular, that there are adequate financial procedures and controls for the close down of the Council's responsibilities for the Subscription Rooms.

Due to the significance of this project, application of an agile audit approach to delivering residual risk has been taken, thus ensuring that should any suggested improvement areas to the financial procedures and controls be identified these have been raised with the relevant managers responsible at the earliest opportunity.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The underlying financial records to review for this audit were held by a combination of; i) the General Manager for the Subscription Rooms and ii) the financial system Business World. Discussions with key officers and review of supporting documentation, was then completed.
- The actual finance procedures and controls used for financial close down were compliant with the Council's Financial Regulations.
- The known inherent key risks as identified within the Terms of Reference for this review in dealing with the transfer of the Subscription Rooms to the Town Council and Trust have been minimised to an acceptable level.

- This project benefitted by having the ex Director of Customer Services as part of the Transition Group, so suitable and timely reporting of the financial issues arising as identified by Council staff/ and Trustees occurred.
- It was noted that the Excelsis Property Services risk for transfer of assets (PROP 1) was last reviewed in November 2018, with the proposed date for further review stated as February 2019 now being overdue. This was verbally raised with the respective service area.

Conclusion

Review of financial close down concludes that substantial assurance can be provided for risk identification arrangements and their management and control. No recommendations have been made.

Management Actions

None required.

Summary of Consulting Activity and/or support provided where no opinions are provided

Service Area: Council Wide

Audit Activity: Workforce Plan Programme Management

The 2018/19 Internal Audit Plan included a review of the effectiveness of the programme / project management arrangements in place to deliver the objective of the Workforce Plan. Due to the significance, and breadth of this programme, it was agreed that application of an agile audit approach to delivering the objective would be taken, thus any suggested improvement areas identified were raised with management at the earliest opportunity to ensure that improvements to the control environment could be considered and actioned.

During the financial year the Council has had a change of leadership with a new Chief Executive joining the Council in November 2018. In order to help understand the change that is needed and to help shape the future direction of the Council, the Chief Executive commissioned a Local Government Association Peer Challenge Review.

It was therefore agreed that the review should be deferred and audit resource directed during 2019/20 to a review of the effectiveness of the governance arrangements for driving forward any key improvement actions/plans emanating from the peer review.